

AR26

Annual Report 1972

**Sullivan Mining Group Ltd.
East Sullivan Mines Limited**

To the shareholders,

The Boards of Directors hereby submit the comparative semi-annual combined report as at the end of February 1972.

Notwithstanding an additional loss of \$146,175 due to the employees' strike and the plant shut down at Nigadoo River Mines Limited, the net combined earnings are \$916,907 compared to \$801,803 for the same period in 1971. However, this amount includes a non-recurring income of \$267,855 from the sales of investments and fixed assets compared to \$79,960 for the similar period in 1971. Due to fluctuating prices of copper and lead, metals produced during the 6 months ended February 29, 1972 have been recorded at lower prices than what the actual prices were at that date. We are referring you to the notes shown in the financial statements.

We are confident, more than ever, that the mining operations will resume at the Quebec Lithium plant in the near future. Now, the market conditions of the lithium products seem to be more favourable.

Your companies have just negotiated an agreement which would expand their exploration activities to Mexico. The optioned property for prospecting and exploration comprises an area of 7 to 8 square miles located at approximately 70 miles west-northwesterly of Mexico City, Mexico. According to the companies' geologists, this mining camp, a former important gold and silver producer, deserves a serious examination before initiating future exploration and development programs.

On behalf of the boards of directors,

EAST SULLIVAN MINES LIMITED (N.P.L.)
SULLIVAN MINING GROUP LTD.

J. Jacques Beauchemin,
President

COMBINED BALANCE SHEET (SUBJECT TO YEAR END AUDIT)

	February 29 1972	February 28 1971
ASSETS		
Current	\$ 9,911,627	\$ 9,993,588
Investments, at cost	7,910,805	6,608,782
Fixed	8,096,952	8,708,738
Other assets	16,175,067	14,891,993
	<u>\$42,094,451</u>	<u>\$40,203,101</u>

LIABILITIES

Current	\$ 760,946	\$ 985,940
Minority interests in subsidiary	—	9,110
Interest of the outside shareholders:		
Sullivan Mining Group Ltd.	23,267,502	22,067,865
East Sullivan Mines Limited	18,066,003	17,140,186
	<u>\$42,094,451</u>	<u>\$40,203,101</u>

COMBINED STATEMENT OF OPERATIONS (SUBJECT TO YEAR END AUDIT)

	February 29 1972	February 28 1971
Net Production*	\$ 4,117,976	\$ 4,751,205
Operating cost	2,638,540	3,236,846
Operating profit	1,479,436	1,514,359
Depreciation and amortization	1,023,755	1,088,389
Operating profit after depreciation and amortization	455,681	425,970
Investment and other income	616,794	403,719
	<u>1,072,475</u>	<u>829,689</u>
Provision for taxes and other expenses	171,307	63,620
	<u>901,168</u>	<u>766,069</u>

ADD :

Portion of loss of a subsidiary company applicable to minority interests	15,739	35,734
Net combined earnings	<u>\$ 916,907</u>	<u>\$ 801,803</u>

Interest of the outside shareholders in the above earnings:		
3,725,000 shares of Sullivan Mining Group Ltd.	\$ 516,821	\$ 451,687
2,846,032 shares of East Sullivan Mines Limited	400,086	350,116
	<u>\$ 916,907</u>	<u>\$ 801,803</u>

Net effective earnings per share held by the outside shareholders ...	\$ 0.14	\$ 0.12
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NOTES

The comparative Combined Statements of Operations for the six months ended February 29 result from the Combination of the Net Earnings of: East Sullivan Mines Limited, Sullivan Mining Group Ltd., D'Estrie Mining Company Ltd., Weedon Mines Ltd. and Nigadoo River Mines Limited.

* Metals produced during the 1st half-year have been recorded before cost of realization at the following prices:

	February 29 1972	February 28 1971
Copper	\$ 0.50 lb.	\$ 0.50 lb.
Zinc	0.17 lb.	0.14 lb.
Lead	0.14½ lb.	0.12½ lb.
Cadmium	2.25 lb.	2.25 lb.
Bismuth	3.50 lb.	6.00 lb.
Gold	47.00 oz.	38.80 oz.
Silver	1.55 oz.	1.62 oz.

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (SUBJECT TO YEAR END AUDIT)

	February 29 1972	February 28 1971
WORKING CAPITAL		
at beginning of year	\$ 9,469,436	\$12,659,761
SOURCE OF FUNDS :		
Net combined earnings for the period	916,907	801,803
Depreciation and amortization	1,023,755	1,088,389
Prior years' income tax adjustment	(443)	14,374
	<u>1,940,219</u>	<u>1,904,566</u>

APPLICATION OF FUNDS :

Dividends paid to outside shareholders	—	1,642,764
Outside exploration	184,535	223,377
Pre-production expenditures	1,309,000	2,370,021
Additions to fixed assets	31,499	273,421
Investments and advances to subsidiary and affiliated companies	720,652	1,015,718
Minority interests' share of the loss of a consolidated subsidiary	15,739	35,734
Miscellaneous	(2,451)	(4,356)
	<u>2,258,974</u>	<u>5,556,679</u>
Decrease in working capital	318,755	3,652,113

WORKING CAPITAL, end of period	\$ 9,150,681	\$ 9,007,648
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NOTE

The comparative Combined Statements of Source and Application of Funds, as at the end of February, result from the Combination of:

East Sullivan Mines Limited, Sullivan Mining Group Ltd., D'Estrie Mining Company Ltd., Weedon Mines Ltd. and Nigadoo River Mines Limited.



**Rapport
interiminaire
combiné
pour les six mois
terminés
le 29 Février
1972**

**EAST SULLIVAN MINES LIMITED
GROUPE MINIER SULLIVAN LTÉE**

2500 — 500 Place d'Armes, Montréal 126, Qué.



**Combined
Interim
Report
for the six months
ended
February 29
1972**

**EAST SULLIVAN MINES LIMITED
SULLIVAN MINING GROUP LTD.**

2500 — 500 Place d'Armes, Montreal 126, Que.

Aux actionnaires,

Nous sommes heureux de vous transmettre le rapport semestriel comparatif pour la période se terminant le 29 février 1972.

Nonobstant une perte additionnelle de \$146,175 résultant de la grève des employés et de la fermeture de la mine de Nigadoo River Mines Limited, les bénéfices nets combinés ont été de \$916,907 comparativement à \$801,803 durant la même période de l'année précédente. Ces résultats comprennent un montant de \$267,855 provenant de la vente de placements et d'actifs immobilisés comparativement à \$79,960 pour les six mois terminés le 28 février 1971. La valeur de la production est cependant calculée à des prix inférieurs à ceux prévalant sur les marchés actuels; comme vous pourrez vous-mêmes le constater dans les notes apparaissant aux états financiers.

Nous sommes confiants, plus que jamais, que la reprise des opérations de Québec Lithium Corporation se fera dans un avenir prochain. Les marchés actuels des produits de lithium semblent favoriser cette reprise. Les programmes d'exploration pour l'année en cours se sont poursuivis, malgré un certain ralentissement depuis le début du printemps. Les activités reprendront leur cours à un rythme accéléré avec le retour de la belle saison.

Enfin, votre compagnie vient de négocier une convention en vertu de laquelle elle agrandit son champ d'action jusqu'au Mexique. La propriété acquise par option pour fin d'exploration comprend une superficie de 7 à 8 milles carrés, située à environ 70 milles ouest nord ouest de la ville de Mexico, Mexique. Ancien producteur important d'or et d'argent, cet ancien camp minier, de l'avis de nos géologues, mérite tout d'abord un examen sérieux afin de déterminer l'approche des travaux futurs d'exploration et de développement, s'il y a lieu.

Au nom des Conseils d'Administration,

EAST SULLIVAN MINES LIMITED (N.P.L.)
GROUPE MINIER SULLIVAN LTÉE

Le président,
J. Jacques Beauchemin

Montréal, le 20 avril 1972

ÉTAT COMBINÉ DU BILAN
(SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	29 février 1972	28 février 1971
ACTIF		
Disponibilités	\$ 9,911,627	\$ 9,993,588
Placements, au coûtant	7,910,805	6,608,782
Immobilisations	8,096,952	8,708,738
Autres actifs	16,175,067	14,891,993
	<u>\$42,094,451</u>	<u>\$40,203,101</u>

PASSIF

Exigibilités	\$ 760,946	\$ 985,940
Intérêts minoritaires dans une filiale	—	9,110
Intérêts des actionnaires extérieurs :		
Groupe Minier Sullivan Ltée	23,267,502	22,067,865
East Sullivan Mines Limited	18,066,003	17,140,186
	<u>\$42,094,451</u>	<u>\$40,203,101</u>

ÉTAT COMBINÉ DES OPÉRATIONS
(SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	29 février 1972	28 février 1971
Production nette*	\$ 4,117,976	\$ 4,751,205
Coût d'opérations	2,638,540	3,236,846
Profit d'opérations	1,479,436	1,514,359
Dépréciation et amortissement	1,023,755	1,088,389
Profit d'opérations après dépréciation et amortissement	455,681	425,970
Revenus de placements et autres revenus	616,794	403,719
	<u>1,072,475</u>	<u>829,689</u>
Provision pour impôts et autres dépenses	171,307	63,620
	<u>901,168</u>	<u>766,069</u>

AJOUTER

Partie de la perte d'une compagnie subsidiaire attribuable aux intérêts minoritaires	15,739	35,734
Bénéfices nets combinés	<u>\$ 916,907</u>	<u>\$ 801,803</u>
Intérêts des actionnaires extérieurs dans les bénéfices ci-haut :		
3,725,000 actions		
Groupe Minier Sullivan Ltée	\$ 516,821	\$ 451,687
2,846,032 actions		
East Sullivan Mines Limited	400,086	350,116
6,571,032 actions	<u>\$ 916,907</u>	<u>\$ 801,803</u>

Bénéfices nets effectifs par action détenue par les actionnaires extérieurs	\$ 0.14	\$ 0.12
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NOTES

Les états combinés comparatifs des opérations, pour la période terminée le 29 février, résultent d'une combinaison des bénéfices des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrie Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.

* La production des métaux pour le 1er semestre a été comptabilisée aux livres avant le coût de réalisation aux prix suivants :

	29 février 1972	28 février 1971
Cuivre	\$ 0.50 lb.	\$ 0.50 lb.
Zinc	0.17 lb.	0.14 lb.
Plomb	0.14½ lb.	0.12½ lb.
Cadmium	2.25 lb.	2.25 lb.
Bismuth	3.50 lb.	6.00 lb.
Or	47.00 oz.	38.80 oz.
Argent	1.55 oz.	1.62 oz.

ÉTAT COMBINÉ DE LA SOURCE ET DE L'EMPLOI DES FONDS
(SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	29 février 1972	28 février 1971
FONDS DE ROULEMENT		
au début de la période	\$ 9,469,436	\$12,659,761
SOURCE DES FONDS :		
Bénéfices nets combinés de l'exercice	916,907	801,803
Dépréciation et amortissement	1,023,755	1,088,389
Ajustement d'impôt des années antérieures	(443)	14,374
	<u>1,940,219</u>	<u>1,904,566</u>

EMPLOI DES FONDS :

Dividendes payés aux actionnaires extérieurs	—	1,642,764
Exploration extérieure	184,535	223,377
Dépenses préliminaires à la production	1,309,000	2,370,021
Additions des immobilisations	31,499	273,421
Acquisitions d'actions et de débentures et avances à des filiales	720,652	1,015,718
Part des intérêts minoritaires dans la perte d'une filiale consolidée	15,739	35,734
Divers	(2,451)	(4,356)
	<u>2,258,974</u>	<u>5,556,679</u>

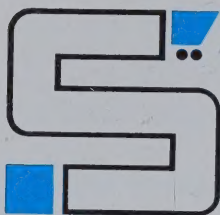
Diminution du fonds de roulement	<u>318,755</u>	<u>3,652,113</u>
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FONDS DE ROULEMENT à la fin de la période	<u>\$ 9,150,681</u>	<u>\$ 9,007,648</u>
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NOTE

Les états combinés comparatifs de la source et de l'emploi des fonds à la fin de février résultent d'une combinaison des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrie Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.



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*Les actionnaires qui
préféreraient recevoir ce rapport
en français sont priés
de communiquer avec le
secrétaire de la compagnie.*

HIGHLIGHTS

Sullivan Mining Group Ltd.

and

East Sullivan Mines Limited

	1972	1971	1970
	(in thousands)		
For the year			
Production	\$12,571	\$17,333	\$20,476
Net Earnings	1,603	2,180	5,603
Net Earnings per share	0.24¢	0.33¢	0.85¢
Net Dividends Paid	—	1,643	3,286
Exploration and research	834	1,296	2,002
(for new mines)			
Capital Expenditures	1,794	4,531	5,558
(development of new mines)			
Depreciation and amortization	1,782	2,552	1,617
At end of year			
Working Capital	10,383	9,469	12,660
Total assets	42,387	41,126	41,071

To the shareholders of
Sullivan Mining Group Ltd.
and
East Sullivan Mines Limited
(No Personal Liability)

It is with pleasure that the directors submit the annual report of your companies for the fiscal year ended August 31, 1972. Included in this report is a summary of the financial statements of the non-consolidated subsidiary companies as of August 31, 1972.

Financial Highlights

Net combined profits earned by Sullivan Mining Group Ltd. and East Sullivan Mines Limited during the last fiscal year amounted to \$1,602,609 or \$0.243 per share effectively in circulation. This represents a yield of approximately 4% on shareholders' equity. As of fiscal year-end shareholders' equity in Sullivan Mining Group amounted to \$6.34 per share against \$6.10 last year. The corresponding equity figures for East Sullivan Mines were \$6.44 per share and \$6.20 respectively.

With an average copper price of \$0.457 per pound realized on sales during the 1972 fiscal year, compared to \$0.496 for the preceding period, our mines' gross operating profits decreased from \$1,707,218 to \$1,183,253, notwithstanding an increase of 6% in the production of copper. Expenses related to closed mines, maintenance of idle properties, written-off outside exploration costs and a loss on disposal of fixed assets, totalling \$669,199 contributed to a further reduction of 1972 profits. However, investment income for the year rose to \$1,097,654 and working capital increased by \$913,170.

Owing to the large amounts of depreciable assets and deferred pre-milling expenses accumulated by your companies in previous years, no income taxes are due for the reported period, except an estimated amount of \$30,000 resulting from taxable capital gains.

Events of the Year

Unable to reach a mutually satisfactory wage agreement at the Nigadoo River Mines, your management was compelled last January to suspend the mine's operations for an indefinite period. An improvement in metal prices, especially silver, could justify the resumption of operations from that deposit. Ore deposits are depleting assets and in your management's view, should not be mined at a time when low returns result in uneconomic operations.

A further extension at depth of the D'Estrie Mining Company's copper deposit has been indicated recently by a diamond drill hole intersection below the present bottom level. The volume of production at our Cupra mill and at the adjacent mines located in the Eastern Townships has been maintained at a most satisfactory level.

Metallurgical research and further ore exploration on the Brunswick Tin Mines' property have been actively pursued during the 1972 fiscal year. Exploration results, particularly those obtained by the most recent diamond drilling, have been very encouraging. Detailed information in this respect is included in the exploration manager's report (page 7).

More than \$4 million have already been expended to enhance the value of this promising property. The eventual success of bringing such an extensive deposit into production should have a most favourable impact on your companies' future earnings.

As to our Quebec Lithium division, further feasibility studies are presently under way with a view towards an eventual resumption of operations.

A new approach to mining our Chester Mines' copper deposit has been submitted to the New Brunswick Department of Fisheries and Environment and appears to be acceptable. Subject to certain conditions, your management is seriously contemplating a start on pre-production development work on the indicated 3½ million tons of copper ore in this deposit.

Outlook

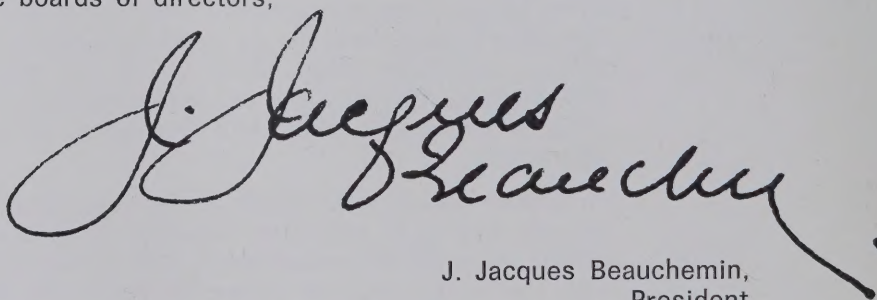
During the last two and a half years the world's mining industry has suffered from the down-trend part of the cycle for metal prices. This was accompanied by the strengthening of the Canadian dollar, a fact which although gratifying to other sectors of the Canadian economy, had a detrimental effect on the financial viability of Canadian mining companies.

We hope that a better understanding of the financial realities of the mining industry by Governments and labour will help this sector of the Canadian economy to go through the current difficult period without irreparable damage to the extractive industry. Your directors remain confident that more favourable conditions are ahead which will allow for appreciable expansion and growth of your companies.

The meetings of shareholders of both companies, will be held, in Montreal, at Salon Lachine, Bonaventure Hotel, on Monday, November 20, 1972, starting at 10:00 a.m. You are cordially invited to attend.

Your directors wish to express their appreciation to all employees, staff and officers, for their loyal and efficient services.

On behalf of the boards of directors,

A large, stylized handwritten signature in black ink, reading "J. Jacques Beauchemin". The signature is written in a cursive style with large loops and flourishes.

J. Jacques Beauchemin,
President

September 27, 1972

Mining Operations

We hereby submit the report on the mining operations of Sullivan Mining Group Ltd. and its subsidiaries for the year under review.

Cupra Division

A total of 123,290 tons of ore was milled, having an average grade of 2.25% copper, 0.59% lead, 3.82% zinc, 0.013 ounce of gold and 0.99 ounce of silver.

The ore reserves amount to 379,000 tons with a grade of 2.37% copper, 0.49% lead, 2.37% zinc, 0.011 ounce of gold and 0.832 ounce of silver. These reserves are fully developed and their stoping preparation is almost completed.

D'Estrie Mining Company Ltd.

A total of 102,027 tons of ore have been sent to the concentrator, averaging 2.55% copper, 0.66% lead, 3.14% zinc, 0.015 ounce of gold and 1.119 ounces of silver. Out of that total 55,926 tons came from development work.

Proven ore reserves, are 1,071,000 tons having an average grade of 3.21% copper, 0.67% lead, 2.14% zinc, 0.015 ounce of gold and 1.127 ounces of silver. With the indication obtained from drifting on the 4475 foot horizon, we estimate another 250,000 tons of probable reserves.

Weedon Mines Ltd.

A total of 184,486 tons of ore have been mined and treated, averaging 1.66% copper, 0.83% zinc, 0.010 ounce of gold and 0.34 ounce of silver.

Proven ore reserves amount to 114,000 tons averaging 1.96% copper and 0.70% zinc. Nevertheless, development is being carried out on 2200 and 2500 foot levels and there is still possibility of finding additional ore.

Nigadoo River Mines Limited

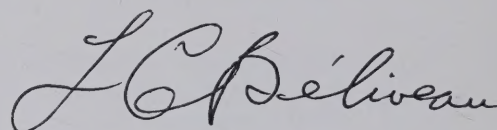
From September 1 to November 21, 1971, when the company's employees went on strike, the concentrator treated 72,444 tons of ore having an average grade of 0.27% copper, 3.23% lead, 3.29% zinc and 4.18 ounces of silver. On January 4, 1972, the board decided to suspend the operations for an indefinite period.

At the time of suspension, the ore reserves were 1,248,000 tons having an average grade of 0.24% copper, 3.23% lead, 3.22% zinc and 4.04 ounces of silver, after deduction of lower grade ore and pillars, considered unrecoverable.

General

We wish to express our thanks to the personnel and all the employees of our various mining operations for their loyal services.

Respectfully submitted,



Lucien C. Béliveau, Eng.
Vice-President (Mines)

September 27, 1972.

Metals Production

	Cupra Division	Subsidiary companies			Total 1971-72		Total 1970-71	
		D'Estrie	Weedon	Nigadoo	Pounds *Ounces	Value \$	Pounds *Ounces	Value \$
Copper	5,372,179	5,092,332	5,991,072	341,104	16,796,687	7,684,321	15,716,794	7,789,386
Lead	685,789	681,283	—	3,582,180	4,949,252	562,779	16,845,906	2,109,441
Zinc	7,383,802	5,085,802	1,780,213	3,980,888	18,230,705	3,141,571	29,284,366	4,870,295
Gold*	968	950	1,101	—	* 3,019	196,745	* 3,180	130,976
Silver*	94,497	89,170	40,106	231,300	* 455,073	659,678	* 1,179,309	1,868,390
Cadmium	40,235	26,199	10,245	56,050	132,729	286,972	281,168	249,028
Bismuth	2,915	1,834	—	13,382	18,131	38,803	60,201	315,694
					<u>\$12,570,869</u>		<u>\$17,333,210</u>	

Review of Exploration

Sullivan Mining Group Ltd. is actively pursuing the search and development of mineral deposits. During the fiscal year ended August 31, 1972, the Group spent a total of \$840,000. on mining exploration. The bulk of these expenditures was devoted to the promising project of Brunswick Tin Mines Limited in Southwestern New Brunswick. On a smaller scale, work was also performed on many other projects in various areas of Eastern Canada.

Expenditures on the Brunswick Tin property for the year amounted to \$570,000. One third of this amount was spent on metallurgical research, while geology, diamond drilling, assaying and general expenses accounted for the balance. Diamond drilling for the period totalled 24,003 feet and more than 250,000 quantitative determinations by X-ray spectrometer were made in the company's laboratory at St. Stephen, N.B.

Metallurgical research work for this project conducted during the year at the Mineral Processing Division of the Department of Energy, Mines and Resources in Ottawa and in Brunswick Tin's own laboratory in Bathurst, N.B. has further enhanced the likelihood of a profitable recovery. Studies of the bulk flotation and selective flotation of the sulphides (copper, zinc, molybdenum, bismuth, lead and arsenic) and of the fluorspar have progressed satisfactorily. Various methods of concentrating the wolframite (tungsten oxide) have also been explored. Treatment by hydrometallurgy of several of the possible concentrates has been tested in laboratory research and results obtained so far appear favourable.

The main exploration achievement of the year was the indication of a large mineralized area in Brunswick Tin's North Zone which could prove as important as the already defined Fire Tower Zone, half a mile to the south.

The reserves of the Fire Tower Zone now stand at 29.5 million tons with an average grade of 0.20% tungsten, 0.09% molybdenum, 0.08% bismuth, 0.04% tin, 0.07% copper, 0.35% zinc, 0.08% lead, 4% fluorspar and of about one ounce of indium per ton. This tonnage has been indicated by previous diamond drilling which also revealed the existence within this deposit, of two richer parts likely to contain about 5 million tons at a grade 50% higher than the quoted averages.

All the diamond drilling during the last fiscal period was conducted on the North Zone to explore a pipe-like porphyritic intrusive body similar to that of the Fire Tower Zone. The favourable intrusive has a length of about 1,600 feet, varies in width between 500 and 800 feet and has a nearly vertical attitude. It has been partly explored to a vertical depth of 1,400 feet.

Parts of the intrusive porphyry carry tungsten – molybdenum – bismuth mineralization typical of the Fire Tower Zone. Two of the mineralized areas within the North Zone, although not well defined, already show possibilities of several million tons.

The most interesting results provided by the drilling of the North Zone consist of tin mineralization intersected in almost every one of the twenty-two holes drilled below the vertical depth of 300 feet. Many intersections of various lengths and grades were obtained. So far, there are

within this zone, twenty-four intersections of thirty feet or more (up to 70 feet), with a grade above 0.5% tin. Half of these carry between 1% and 3% of this metal. Most of the intersections are located in the porphyritic intrusive, at vertical depths ranging from 300 feet to 1,200 feet. (Tin intersections reported by predecessors before 1967 occurred mostly in volcanic rocks adjacent to the intrusive).

The presence of these high grade concentrations of tin mineralization found in the 1971-1972 diamond drilling campaign in the North Zone could be very important economically to the future of the project. Three diamond drills have been in operation on this zone since last June and, barring unforeseen difficulties, will continue to probe this area during the next few months in order to indicate the size and attitude of the tin and tungsten mineralization.

Work is in progress also on other exploration projects and will continue as warranted by the merits of the properties and the results obtained. The Sullivan Group will also pursue its search for new ore deposits by examining and studying new areas and properties of interest.

A handwritten signature in dark ink, appearing to read 'G. Carrière', with a stylized, cursive script.

Gilles Carrière, Eng.
Exploration Manager.

October 3, 1972.

Officers

JEAN BEAUCHEMIN, *Chairman of the Board*
J. JACQUES BEAUCHEMIN, Q.C.*, *President*
ANDRÉ BEAUCHEMIN, Eng.*, *Executive Vice-President*
LUCIEN C. BÉLIVEAU, Eng.*, *Vice-President (Mines)*
RÉAL J. LAFLEUR, *Secretary-Treasurer*
FERNAND CORDEAU, C.A., *Assistant Secretary-Treasurer*
ROGER PLASSE, Eng., *General Manager*
GILLES CARRIÈRE, Eng., *Exploration Manager*
R. B. GOSSELIN, Eng.,
Mine Manager of Cupra, d'Estrée and Weedon Mines

* Executive Committee

DIRECTORS OF SULLIVAN MINING GROUP LTD.

ANDRÉ BEAUCHEMIN, Eng.
GENDRON BEAUCHEMIN, Eng.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
MARC H. DHAVERNAS, D.E.Sc.
Brig. Gen. J. GUY GAUVREAU
RÉAL J. LAFLEUR
J. ERNEST LAFORCE
PAUL F. McDONALD, B.C.L.
ALEXANDRE J. MONTMINY

DIRECTORS OF EAST SULLIVAN MINES LIMITED

ANDRÉ BEAUCHEMIN, Eng.
CLAUDE BEAUCHEMIN, Attorney
P. ERNEST BEAUCHEMIN, Q.C.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
ALBERT DOYON, Economist
Major JACQUES GAUVREAU
ANDRÉ LATREILLE, Eng.

Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA, Montreal - Toronto
BANKERS TRUST COMPANY, New York

Shares Listed

CANADIAN STOCK EXCHANGE / TORONTO STOCK EXCHANGE

Auditors

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS, Montreal

Head Office

Suite 2500 - B.C.N. Building, 500 Place D'Armes, Montreal 126, Quebec

Combined Financial Statements

As at August 31, 1972



**Sullivan Mining Group
Ltd.**

and

**East Sullivan Mines
Limited**

Sullivan Mining Group Ltd.
and
East Sullivan Mines Limited

(No Personal Liability)
(Incorporated under the Quebec Companies' Act)

ASSETS

	<u>August 31, 1972</u>	<u>August 31, 1971</u>
CURRENT ASSETS		
Cash and term deposits	\$ 3,610,019	\$ 4,529,767
Marketable securities at cost (market value : 1972 - \$1,152,198 — 1971 - \$1,991,316) — (note 4)	1,154,130	1,777,765
Accounts receivable — Unconsolidated subsidiaries	119,373	62,236
— Others	54,985	60,789
Accrued interest receivable	14,343	13,636
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	4,508,291	2,392,397
Mining and milling supplies :		
Valued at average cost	1,030,883	1,009,293
Valued at possible amount of realization	191,909	195,761
Prepaid expenses	61,188	60,214
Recoverable income taxes and prepayments	34,239	60,442
	<u>10,779,360</u>	<u>10,162,300</u>
INVESTMENTS AT COST AND LOANS AND ADVANCES (Annex 1) — (note 2)	<u>8,400,319</u>	<u>7,192,604</u>
FIXED ASSETS — (notes 3, 5 and 7)		
Real estate at cost	111,175	111,175
Land, buildings, plant and equipment at cost less accumulated depreciation — (1972 - \$7,688,602 — 1971 - \$7,477,274)	7,102,659	7,894,825
Mining properties, claims and concessions at cost	351,255	351,255
	<u>7,565,089</u>	<u>8,357,255</u>
OTHER ASSETS AT COST, less amount written off (notes 3, 5, 7 and 8)		
Deferred development and pre-production expenditures	14,799,218	14,414,028
Outside exploration expenditures	838,103	992,792
Other deferred expenses	5,332	6,665
	<u>15,642,653</u>	<u>15,413,485</u>
	<u>\$42,387,421</u>	<u>\$41,125,644</u>

Approved on behalf of the Boards of Directors :

J. JACQUES BEAUCHEMIN
LUCIEN C. BÉLIVEAU

COMBINED BALANCE SHEET

As at August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 1

LIABILITIES

CURRENT LIABILITIES

	August 31, 1972	August 31, 1971
Accounts payable — others	\$ 132,548	\$ 405,178
Wages payable	69,384	89,099
Provision for Quebec Mining duties and income taxes on capital gains ...	<u>194,822</u>	<u>198,587</u>
	<u>396,754</u>	<u>692,864</u>

INTEREST OF OUTSIDE SHAREHOLDERS

Sullivan Mining Group Ltd.

CAPITAL STOCK :

Authorized — 10,000,000 shares without par value

Issued and fully paid :

8,400,000 shares	11,242,600	11,242,600
Less : 4,675,000 shares held by East Sullivan Mines Limited	<u>6,257,042</u>	<u>6,257,042</u>
3,725,000 shares held by the outside shareholders	<u>4,985,558</u>	<u>4,985,558</u>
Combined contributed surplus	<u>2,074,105</u>	<u>2,074,105</u>
Combined retained earnings — statement 3	<u>16,583,721</u>	<u>15,700,038</u>
Interest of 3,725,000 shares held by the outside shareholders	<u>23,643,384</u>	<u>22,759,701</u>

East Sullivan Mines Limited

CAPITAL STOCK :

Authorized, issued and fully paid :

4,675,000 shares without par value	4,250,000	4,250,000
Less : 1,828,968 shares held by Sullivan Mining Group Ltd.	<u>1,662,697</u>	<u>1,662,697</u>
2,846,032 shares held by the outside shareholders	<u>2,587,303</u>	<u>2,587,303</u>
Combined contributed surplus	<u>426,450</u>	<u>426,450</u>
Combined retained earnings — Statement 3	<u>15,333,530</u>	<u>14,659,326</u>
Interest of 2,846,032 shares held by the outside shareholders	<u>18,347,283</u>	<u>17,673,079</u>
	<u>\$42,387,421</u>	<u>\$41,125,644</u>

COMBINED STATEMENT OF EARNINGS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 2

	August 31, 1972	August 31, 1971
REVENUE FROM METAL RECOVERIES — Production	\$12,570,869	\$17,333,210
Less: Cost of realization and freight	<u>4,595,741</u>	<u>6,868,192</u>
	7,975,128	10,465,018
DEDUCT :		
OPERATING COSTS		
Mining operations	4,707,723	5,855,691
General administration expenses	301,982	349,821
Depreciation and amortization of deferred development and pre-production expenditures — (notes 3, 5, 7 and 8)	<u>1,782,170</u>	<u>2,552,288</u>
	6,791,875	8,757,800
OPERATING PROFIT	<u>1,183,253</u>	<u>1,707,218</u>
DEDUCT :		
OTHER EXPENSES		
Net expenses of closed mines and idle property	252,638	107,681
Outside exploration expenses written off	373,340	321,488
Amortization of bonds expenses of subsidiary	1,333	1,333
Loss on disposal of fixed assets	<u>41,888</u>	<u>31,823</u>
	669,199	462,325
	514,054	1,244,893
ADD :		
OTHER INCOME		
Interest from unconsolidated subsidiaries	422,685	312,257
Dividends and other interest — net	275,949	274,878
Profit on sales of investments	<u>399,020</u>	<u>332,734</u>
	1,097,654	919,869
EARNINGS before income taxes and mining duties	1,611,708	2,164,762
DEDUCT :		
Provision for capital gains tax (1971 mining duties)	<u>30,000</u>	<u>45,000</u>
NET EARNINGS	1,581,708	2,119,762
ADD :		
Minority interest's share of loss of Nigadoo River Mines Limited for the year	<u>20,901</u>	<u>60,410</u>
NET COMBINED EARNINGS for the year carried to Retained Earnings — Statement 3	<u>\$ 1,602,609</u>	<u>\$ 2,180,172</u>
INTEREST OF THE OUTSIDE SHAREHOLDERS		
Sullivan Mining Group Ltd. — 3,725,000 shares	\$ 908,881	\$ 1,230,618
East Sullivan Mines Limited — 2,846,032 shares	693,728	949,554
6,571,032 shares	<u>\$ 1,602,609</u>	<u>\$ 2,180,172</u>

COMBINED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1972

STATEMENT 3

	Sullivan Mining Group Ltd.	East Sullivan Mines Limited
Balance at beginning of year	\$15,700,038	\$14,659,326
ADD :		
Net combined earnings for the year as per statement 2	908,881	693,728
	<u>16,608,919</u>	<u>15,353,054</u>
DEDUCT :		
Adjustments of prior years' income taxes	\$ 23,821	
Minority portion of deficit	20,901	
	<u>\$ 44,722</u>	<u>25,198</u>
BALANCE AT END OF YEAR	<u>\$16,583,721</u>	<u>\$15,333,530</u>

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 4

	August 31, 1972	August 31, 1971
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 9,469,436	\$12,659,761
SOURCE OF FUNDS		
Net Profit for the year	\$ 1,602,609	
Add — Items not requiring cash outlay :		
Depreciation and amortization — (notes 7 and 8)	1,782,170	
Amortization of deferred expenses	1,333	
Outside exploration written-off	<u>373,340</u>	<u>5,055,281</u>
Reimbursements of mortgages	4,030	6,734
Disposals of fixed assets (net of additions)	<u>418,994</u>	<u>—</u>
	<u>4,182,476</u>	<u>5,062,015</u>
APPLICATION OF FUNDS		
Additions to fixed assets (net of proceeds)	—	294,476
Minority interest's share of the loss of a consolidated subsidiary	20,901	60,410
Investments acquired :		
Loans and advances to subsidiaries not combined and affiliate	1,184,491	1,389,048
Purchases of shares and debentures in subsidiaries and others	27,254	212,871
Outside exploration expenses	218,651	292,388
Pre-production expenses — (notes 5, 7 and 8)	1,794,188	4,236,684
Prior years' income tax adjustment	23,821	123,700
Net dividends paid	<u>—</u>	<u>1,642,763</u>
	<u>3,269,306</u>	<u>8,252,340</u>
Increase in working capital, (decrease in 1971)	<u>913,170</u>	<u>(3,190,325)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$10,382,606</u>	<u>\$ 9,469,436</u>

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1972

ANNEX 1

	Brompton Mines Ltd.	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Ltd.
% of Interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 32	\$ 20,387	\$ 704	\$ 28,757	\$ 48	\$ 47,331	\$ 4,164
Investments at cost	—	—	—	411,624	—	26,716	—
Buildings and equipment	—	291,245	13,500	—	—	—	—
Deferred expenditures	24,378	3,729,881	1,872,206	505,181	7,157	838,479	162,006
Mining properties, licenses, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 138,910</u>	<u>\$4,120,513</u>	<u>\$1,961,410</u>	<u>\$1,213,704</u>	<u>\$ 307,205</u>	<u>\$1,912,526</u>	<u>\$ 203,670</u>
Current Liabilities :							
Affiliated company	—	36,718	—	—	—	—	—
Parent company	—	81,042	—	—	3,359	—	—
Others	—	25,389	—	—	—	—	—
Loans payable to parent company ..	6,750	3,560,000	—	—	3,840	—	—
Expenses to be reimbursed by the issue of shares of the company ...	19,653	—	1,788,003	—	—	118,155	16,165
Capital stock — Net discount	112,507	417,004	173,407	1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 138,910</u>	<u>\$4,120,513</u>	<u>\$1,961,410</u>	<u>\$1,213,704</u>	<u>\$ 307,205</u>	<u>\$1,912,526</u>	<u>\$ 203,670</u>

NOTE A — The amounts at which these items are recorded do not purport to represent their present or future value.

B — The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$7,719,505 (note 2).

NOTES TO COMBINED FINANCIAL STATEMENTS

As at August 31, 1972

Note 1

The combined financial statements include the accounts of the two main companies, Sullivan Mining Group Ltd. and East Sullivan Mines Limited and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrie Mining Company Ltd. (100%). The other subsidiaries are excluded in the combined balance sheet because they are at the exploration stage.

Note 2 — Investments at Cost and Loans and Advances

	Cost	Market Value
Subsidiaries not included in the combined financial statements: (Annex 1)		
Courvan Mining Company Limited	\$ 464,664	\$ 291,689
Other shares	1,738,917	—
Loans and advances	5,515,925	—
	<u>7,719,506</u>	<u>291,689</u>
Affiliated company:		
Shares	29,716	—
Loans and advances	17,534	—
Other securities:		
Shares	413,579	—
First mortgage income bonds	142,560	—
Mortgage receivable from employees and a director	77,424	—
	<u>\$8,400,319</u>	<u>\$ 291,689</u>

Note 3

With the exception of capital gains resulting from the sales of marketable securities and for which a provision for income taxes of \$30,000 has been provided for in the books, the earnings for the year of Sullivan Mining Group Ltd. and each of the subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings. Furthermore, the company and its subsidiaries had as at August 31, 1972, undepreciated capital cost of \$9,625,000 and unamortized outside exploration expenditures and deferred mine development of \$13,620,000 available for write off against possible taxable profits.

Note 4 — Pending Legal Procedures

- No provision has been made in the financial statements for additional taxes on capital from the Minister of Revenue of Québec for the fiscal periods 1965-1968 which are being contested by the company. A \$100,000 Province of Québec bond has been deposited as a guarantee for the above mentioned claims as well as those of a similar nature against the companies which are now part of Sullivan Mining Group Ltd.
- Legal proceedings have been instituted against the company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Québec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in fact and in law.

Note 5 — D'Estrie Mining Company Ltd.

Management of the company submitted an application to the Income Tax Departments for its tax exemption period to be effective as of March 1, 1972.

Depreciation of fixed assets and amortization of pre-production and deferred mine development expenditures have been charged against earnings from March 1, 1972.

Note 6 — Weedon Mines Ltd.

The thirty-six months' tax exemption period started January 1, 1971.

Note 7 — Nigadoo River Mines Limited

The mining plant was shut down by a strike of the employees on November 21, 1971 and on January 4, 1972, management decided to suspend operations for an indefinite period.

Depreciation on fixed assets has been charged in the accounts for the period of three months ended November 30, 1971.

Management decided that no further depreciation of fixed assets or amortization of pre-production expenditures shall be effected after November 30, 1971.

The thirty-six months' tax exemption period ended on February 1, 1971.

No income taxes were payable for the year ended August 31, 1972.

Note 8 — Pre-Milling and Deferred Development Expenditures

Sullivan Mining Group and its subsidiaries in production, have amortized pre-milling and deferred mine development expenditures at rates based on the total estimated ore reserves of the properties.

The bases of amortization are subject to the economic recovery and sale of concentrates in sufficient quantity to fully amortize the deferred expenditures.

Auditors' Report

To the Shareholders,
Sullivan Mining Group Ltd.
and East Sullivan Mines Limited
Montreal, Que.

We have examined the combined balance sheet of Sullivan Mining Group Ltd. and East Sullivan Mines Limited (No Personal Liability) as at August 31, 1972 and the combined statements of earnings, retained earnings and source and application of funds for the year ended on that date.

These statements are prepared for the purpose of determining the interest of the outside shareholders, excluding that of Sullivan Mining Group Ltd. and of East Sullivan Mines Limited and are based on the verified financial statements as at August 31, 1972 of Sullivan Mining Group Ltd. consolidated with certain of its subsidiaries (note 1) and of East Sullivan Mines Limited.

In our opinion, these financial statements when read with the eight (8) notes relating thereto, present fairly the interest of the outside shareholders of Sullivan Mining Group Ltd. and East Sullivan Mines Limited as at August 31, 1972.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 5, 1972

Financial Statements

as at August 31, 1972

**Sullivan Mining Group
Ltd. and its Subsidiaries**

and

**East Sullivan Mines
Limited**

Sullivan Mining Group Ltd.

and its subsidiaries

(Incorporated under the Quebec Companies' Act)

ASSETS

	August 31, 1972	August 31, 1971
CURRENT ASSETS		
Cash and term deposits	\$ 3,145,786	\$4,495,704
Marketable securities at cost (Market value 1972 - \$1,152,198) — (1971 - \$1,991,316) — (Note 4)	1,154,130	1,777,765
Accounts receivable — unconsolidated subsidiaries	119,373	62,236
— others	54,985	60,789
— parent company	—	8,483
Accrued interest receivable	14,343	13,636
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	4,508,291	2,392,397
Mining, milling and refinery supplies :		
Valued at average cost	1,030,883	1,009,293
Valued at possible amount of realization	191,909	195,761
Prepaid expenses	61,188	60,214
Recoverable income taxes and prepayments	33,970	59,942
	<u>10,314,858</u>	<u>10,136,220</u>
INVESTMENTS AT COST AND LOANS AND ADVANCES — (Annex 1) — (Note 2)	<u>9,513,024</u>	<u>8,305,309</u>
FIXED ASSETS — (Notes 3, 5 and 7)		
Real estate at cost	111,175	111,175
Land, buildings, plant and equipment at cost less accumulated depreciation (1972 - \$7,688,602) — (1971 - \$7,477,274)	7,102,659	7,894,825
Mining properties, claims and concessions at cost	351,055	351,055
	<u>7,564,889</u>	<u>8,357,055</u>
OTHER ASSETS AT COST, less amounts written off — (Notes 3, 5, 7 and 8)		
Deferred development and pre-production expenditures	14,799,218	14,414,028
Outside exploration expenditures	838,103	992,792
Other deferred expenses	5,332	6,665
	<u>15,642,653</u>	<u>15,413,485</u>
	<u><u>\$43,035,424</u></u>	<u><u>\$42,212,069</u></u>

Approved on behalf of the Board of Directors :

J. JACQUES BEAUCHEMIN
ANDRÉ BEAUCHEMIN

CONSOLIDATED BALANCE SHEET

As at August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 1

LIABILITIES

	August 31, 1972	August 31, 1971
CURRENT LIABILITIES		
Accounts payable — others	\$ 132,548	\$ 405,178
Wages payable	69,384	89,099
Loan payable to East Sullivan Mines Limited — (Parent Company)	—	440,000
Provision for Quebec Mining duties and income taxes on capital gains	194,822	198,587
	<u>396,754</u>	<u>1,132,864</u>
CAPITAL STOCK		
Authorized — 10,000,000 shares without par value		
Issued and fully paid — 8,400,000 shares	11,242,600	11,242,600
Contributed surplus	4,677,177	4,677,177
Retained earnings — Statement 3	<u>26,718,893</u>	<u>25,159,428</u>
SHAREHOLDERS' EQUITY	<u>42,638,670</u>	<u>41,079,205</u>
	<u>\$43,035,424</u>	<u>\$42,212,069</u>

AUDITORS' REPORT

To the Shareholders,
Sullivan Mining Group Ltd.,
Montreal, Que.

We have examined the consolidated balance sheet of Sullivan Mining Group Ltd. and its subsidiaries, Nigadoo River Mines Ltd., Weedon Mines Ltd. and D'Estrie Mining Co. Ltd. as at August 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the Companies, the consolidated financial statements when read with the eight (8) accompanying notes, present fairly the consolidated financial position of the Companies as at August 31, 1972 and the consolidated results of their operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 5, 1972

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended August 31, 1972

(With comparative figures as at August 31, 1971)

STATEMENT 2

	August 31, 1972	August 31, 1971
REVENUE FROM METAL RECOVERIES — Production	\$12,570,869	\$17,333,210
Less : Cost of realization and freight	<u>4,595,741</u>	<u>6,868,192</u>
	7,975,128	10,465,018
DEDUCT :		
OPERATING COSTS		
Mining operations	4,707,723	5,855,691
General administration expenses	265,394	324,420
Depreciation and amortization of deferred development and pre-production expenditures — (Notes 3, 5, 7 and 8)	<u>1,782,170</u>	<u>2,552,288</u>
	6,755,287	8,732,399
OPERATING PROFIT	<u>1,219,841</u>	<u>1,732,619</u>
OTHER EXPENSES		
Net expenses of closed and idle properties	252,638	107,681
Outside exploration expenses written off	373,340	321,488
Amortization of bond expenses of subsidiary	1,333	1,333
Loss on disposal of fixed assets	41,888	31,823
Interest expense — parent company	23,910	38,931
— affiliated company	—	4,255
	<u>693,109</u>	<u>505,511</u>
	526,732	1,227,108
OTHER INCOME		
Interest from unconsolidated subsidiaries	422,685	312,257
Dividend from parent company	—	457,240
Other dividends and interest	264,401	277,358
Profit on sales of investments	<u>399,020</u>	<u>332,734</u>
	1,086,106	1,379,589
EARNINGS before mining duties and taxes	1,612,838	2,606,697
Provision for income taxes on capital gains — (1971 Mining duties)	<u>30,000</u>	<u>45,000</u>
	1,582,838	2,561,697
ADD :		
Minority interest's share of loss of Nigadoo River Mines Limited for the year	<u>20,901</u>	<u>60,410</u>
NET EARNINGS FOR THE YEAR, carried to Retained Earnings, Statement 3	<u>\$ 1,603,739</u>	<u>\$ 2,622,107</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 3

	August 31, 1972	August 31, 1971
BALANCE AT BEGINNING OF YEAR	\$25,159,428	\$24,778,953
ADD :		
Net consolidated earnings for the year as per Statement 2	1,603,739	2,622,107
	<u>26,763,167</u>	<u>27,401,060</u>
DEDUCT :		
Dividends paid	—	2,100,000
Excess of cost over value of shares of consolidated subsidiary acquired during the year :		
Nigadoo River Mines Limited	—	2,366
Minority portion of net loss	20,901	15,566
Adjustments of prior years' income taxes	23,373	123,700
	<u>44,274</u>	<u>2,241,632</u>
BALANCE AT END OF YEAR	<u>\$26,718,893</u>	<u>\$25,159,428</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 4

	August 31, 1972	August 31, 1971
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 9,003,356	\$12,208,983
SOURCE OF FUNDS		
Net Profit for the year	1,603,739	2,622,107
Add : items not requiring any outlay of cash :		
Depreciation and amortization — (Notes 3, 5, 7 and 8)	1,782,170	2,552,288
Amortization of deferred expenses	1,333	1,333
Outside exploration written-off	373,340	321,488
Reimbursements of mortgages	4,030	6,734
Disposals of fixed assets (net of additions)	418,994	—
	<u>4,183,606</u>	<u>5,503,950</u>
APPLICATION OF FUNDS		
Additions to fixed assets (net of proceeds)	—	294,476
Minority interest's share of the loss of a consolidated subsidiary	20,901	60,410
Investments acquired :		
Loans and advances to subsidiaries not consolidated and affiliate	1,184,491	1,389,048
Purchases of shares and debentures in subsidiaries and others	27,254	212,871
Outside exploration expenses	218,651	292,388
Pre-production expenses — (Notes 3, 5, 7 and 8)	1,794,188	4,236,684
Prior years' income tax adjustments	23,373	123,700
Payments of dividends	—	2,100,000
	<u>3,268,858</u>	<u>8,709,577</u>
Increase in working capital, (decrease in 1971)	<u>914,748</u>	<u>(3,205,627)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 9,918,104</u>	<u>\$ 9,003,356</u>

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1972

ANNEX 1

	Brompton Mines Limited	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Ltd.
% of Interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 32	\$ 20,387	\$ 704	\$ 28,757	\$ 48	\$ 47,331	\$ 4,164
Investments at cost	—	—	—	411,624	—	26,716	—
Buildings and equipment	—	291,245	13,500	—	—	—	—
Deferred expenditures	24,378	3,729,881	1,872,206	505,181	7,157	838,479	162,006
Mining properties, licenses, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 138,910</u>	<u>\$4,120,513</u>	<u>\$1,961,410</u>	<u>\$1,213,704</u>	<u>\$ 307,205</u>	<u>\$1,912,526</u>	<u>\$ 203,670</u>
Current Liabilities :							
Affiliated company	\$ —	\$ 36,718	\$ —	\$ —	\$ —	\$ —	\$ —
Parent company	—	81,402	—	—	3,359	—	—
Others	—	25,389	—	—	—	—	—
Loans payable to parent company ..	6,750	3,560,000	—	—	3,840	—	—
Expenses to be reimbursed by the issue of shares of the company ...	19,653	—	1,788,003	—	—	118,155	16,165
Capital stock — net discount	112,507	417,004	173,407	1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 138,910</u>	<u>\$4,120,513</u>	<u>\$1,961,410</u>	<u>\$1,213,704</u>	<u>\$ 307,205</u>	<u>\$1,912,526</u>	<u>\$ 203,670</u>

NOTE A—The amounts at which these items are recorded do not purport to represent their present or future value.

B—The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$7,719,505 (note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 1972

Note 1

The consolidated financial statements include the accounts of Sullivan Mining Group Ltd. and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrie Mining Company Ltd. (100%). The other subsidiaries are excluded in the consolidated balance sheet because they are at the exploration stage.

Note 2

a) The company owns 1,828,968 shares of the parent company East Sullivan Mines Limited, representing 39.1% of the outstanding capital stock. This investment is carried at cost and the income of the parent is included in the accounts only to the extent of dividends received. The parent owns 55.6% of the outstanding capital stock of the company.

b) INVESTMENTS AT COST AND LOANS AND ADVANCES

	Cost	Market Value
East Sullivan Mines Limited — parent company	\$ 1,112,705	\$ 4,572,420
Subsidiaries not consolidated : (Annex 1)		
Courvan Mining Company Limited	464,664	291,689
Other shares	1,738,917	—
Loans and Advances	5,515,925	—
	7,719,506	291,689
Affiliated company :		
Shares	29,716	—
Loans and Advances	17,534	—
Other securities :		
Shares	413,579	—
First mortgage income bonds	142,560	—
Mortgages receivable from employees and a director	77,424	—
	680,813	—
	<u>\$ 9,513,024</u>	<u>\$ 4,864,109</u>

Note 3

With the exception of capital gains resulting from the sales of marketable securities and for which a provision of \$30,000 for income taxes has been provided for in the books, the earnings for the year of Sullivan Mining Group Ltd. and of each of its subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings.

Furthermore, the company and its subsidiaries had as at August 31, 1972, undepreciated capital cost of \$9,625,000 and unamortized outside exploration expenditures and deferred mine development of \$13,620,000 available for write off against possible future taxable profits.

Note 4 — Pending Legal Procedures

- No provision has been made in the financial statements for additional taxes on capital from the Minister of Revenue of Quebec for the fiscal periods 1965-1968 which are being contested by the company. A \$100,000 Province of Quebec bond has been deposited as a guarantee for the above mentioned claims as well as those of a similar nature against the companies which are now part of Sullivan Mining Group Ltd.
- Legal proceedings have been instituted against the company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Quebec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in fact and in law.

Note 5 — D'Estrie Mining Company Ltd.

Management of the company submitted an application to the Income Tax Departments for its tax exemption period to be effective as of March 1, 1972.

Depreciation of fixed assets and amortization of pre-production and deferred mine development expenditures have been charged against earnings from March 1, 1972.

Note 6 — Weedon Mines Ltd.

The thirty-six months' tax exemption period started January 1, 1971.

Note 7 — Nigadoo River Mines Limited

The mining plant was shut down by a strike of the employees on November 21, 1971 and on January 4, 1972, management decided to suspend operations for an indefinite period.

Depreciation on fixed assets has been charged in the accounts for the period of three months ended November 30, 1971. Management decided that no further depreciation of fixed assets or amortization of pre-production expenditures shall be effected after November 30, 1971.

The thirty-six months' tax exemption period ended on February 1, 1971.

No income taxes were payable for the period of September 1, 1971 to August 31, 1972.

Note 8 — Pre-Milling and Deferred Development Expenditures

Sullivan Mining Group Ltd. and its subsidiaries in production, have amortized pre-milling and deferred mine development expenditures at rates based on the total estimated ore reserves of the properties.

The bases of amortization is subject to the economic recovery and sale of concentrates in sufficient quantity to fully amortize the deferred expenditures.

East Sullivan Mines Limited

(No Personal Liability)

(Incorporated under the Quebec Mining Companies' Act)

BALANCE SHEET As at August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 1

ASSETS

	August 31, 1972	August 31, 1971
CURRENT ASSETS		
Cash and Term Deposit	\$ 462,567	\$ 33,830
Loan receivable from subsidiary company	—	440,000
Accrued interest	1,666	233
Recoverable income tax	269	500
	<u>464,502</u>	<u>474,563</u>
 INVESTMENT IN SUBSIDIARY COMPANY AT COST — (Note 1)		
4,675,000 shares Sullivan Mining Group Ltd. (market value, 1972 — \$11,921,250 1971 — \$13,791,250)	13,143,279	13,143,279
 MINING CLAIMS	<u>200</u>	<u>200</u>
	<u>\$13,607,981</u>	<u>\$13,618,042</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	\$ —	\$ 8,482
 CAPITAL STOCK		
Authorized, issued and fully paid 4,675,000 shares without par value	4,250,000	4,250,000
CONTRIBUTED SURPLUS — Premium on shares issued	700,503	700,503
RETAINED EARNINGS — Statement 3	<u>8,657,478</u>	<u>8,659,057</u>
SHAREHOLDERS' EQUITY	<u>13,607,981</u>	<u>13,609,560</u>
	<u>\$13,607,981</u>	<u>\$13,618,042</u>

Approved on behalf of the Board of Directors :

J. JACQUES BEAUCHEMIN
LUCIEN C. BÉLIVEAU

STATEMENT OF EARNINGS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 2

	August 31, 1972	August 31, 1971
INCOME		
Dividends received from subsidiary company	\$ —	\$ 1,168,747
Interest — subsidiary company	23,910	38,930
— others	11,548	1,776
	<u>35,458</u>	<u>40,706</u>
	35,458	1,209,453
DEDUCT		
Administration expenses — net	<u>36,589</u>	<u>25,400</u>
NET LOSS carried to retained earnings (Statement 3), net earnings in 1971	<u>\$ (1,131)</u>	<u>1,184,053</u>

STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 3

	August 31, 1972	August 31, 1971
BALANCE AT BEGINNING OF YEAR	\$ 8,659,057	\$ 8,643,754
ADD		
Net loss for the year as per Statement 2 — net earning in 1971	<u>(1,131)</u>	<u>1,184,053</u>
	8,657,926	9,827,807
DEDUCT		
Income Taxes Adjustments	448	—
Dividends paid	<u>—</u>	<u>1,168,750</u>
BALANCE AT END OF YEAR	<u>\$ 8,657,478</u>	<u>\$ 8,659,057</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1972

(With corresponding figures as at August 31, 1971)

STATEMENT 4

	August 31, 1972	August 31, 1971
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 466,081	\$ 450,778
SOURCE OF FUNDS		
Net loss for the year, net earnings in 1971	<u>(1,131)</u>	<u>1,184,053</u>
APPLICATION OF FUNDS		
Income Taxes Adjustments	448	—
Dividends paid	<u>—</u>	<u>1,168,750</u>
Decrease in working capital, increase in 1971	<u>(1,579)</u>	<u>15,303</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 464,502</u>	<u>\$ 466,081</u>

Notes to Financial Statements

As at August 31, 1972

Note 1

The accounts of the subsidiary Sullivan Mining Group Ltd., have not been consolidated because of the substantial minority interest. It is the opinion of management that a more meaningful appraisal of its financial condition may be obtained from the attached financial statements together with the supplemental information contained in Note 2 and in the consolidated financial statements of Sullivan Mining Group Ltd. and combined financial statements of East Sullivan Mines Limited and Sullivan Mining Group Ltd. These latter statements are included in the 1972 annual report to the shareholders.

Note 2

The company owns 4,675,000 shares of its subsidiary, Sullivan Mining Group Ltd., representing 55.6% of the outstanding capital stock. This investment is carried at cost and the income of the subsidiary is included in the accounts only to the extent of dividends received. The subsidiary owns 39.1% of the outstanding capital stock of the company.

Note 3 — Contingent Liability

No provision has been made in the financial statements for assessments for additional taxes on capital from the Minister of Revenue of Quebec for the fiscal periods 1965-1968 amounting to \$20,423 which are being contested by the Company.

Auditors' Report

To the Shareholders,
East Sullivan Mines Limited,
(No Personal Liability)
Montreal, P. Que.

We have examined the balance sheet of East Sullivan Mines Limited (No Personal Liability) as at August 31, 1972 and the statements of earnings, retained earnings and of source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements, when read with the three (3) notes related thereto, present fairly the financial position of the company as at August 31, 1972 and the results of its operations and the source and application of funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 2, 1972

